BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

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In the Matter of:	:	
	:	Case No. 07-1080-GA-AIR
The Application of Vectren Energy Delivery of Ohio, Inc., for Authority to Amend its Filed Tariffs to Increase the Rates and Charges for Gas Services and Related Matters.	:	
In the Matter of:	:	
	:	Case No. 07-1081-GA-ALT
the Application of Vectren Energy Delivery of Ohio, Inc., for Approval of an Alternative Rate Plan for a Distribution Replacement Rider to Recover the Costs of a Program for the Accelerated Replacement of Cast Iron Mains and Bare Steel Mains and Service Lines, a Sales Reconciliation Rider to Collect Difference Between Actual and Approved Revenues, and Inclusion in Operating Expense of the Costs of Certain Reliability Programs.	:	

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DEPOSITION OF JERROLD L. ULREY

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taken before me, Rosemary F. Anderson, a Notary Public in and for the State of Ohio, at the offices of McNees, Wallace & Nurick, LLC, 21 East Stare Street, Columbus, Ohio, on Wednesday, August 6, 2008 at 1:00 p.m.

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APPEARANCES:

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ALSO PRESENT:

Vectren:
Mr. Larry Friedeman

PUCO Staff:
Mr. Chuck Goins
Mr. Ross Willis (via telephone)

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JERROLD L. ULREY

being by me first duly sworn, as hereinafter certified, deposes and says as follows:

EXAMINATION

By Ms. Grady:

Q. Good morning, Mr. Ulrey.

A. Good morning.

MS. GRADY: Just a brief statement for the record. On June 27, 2008 OCC served it notice of deposition upon Vectron and included in the notice of deposition a notice to have Mr. Ulrey appear on July 21, 2008 pursuant to agreement between counsel for Vectron and counsel for OCC. Mr. Ulrey is appearing today in response to that notice of deposition.

Q. Mr. Ulrey, we're going to start with your direct testimony, and I want you to go to page 5 of your direct testimony, and we are going to focus on lines 25 through 28. Do you see that reference?

A. Yes, I do.

Q. There you say that SFV -- and that would be the straight fixed variable. When I say SFV, I am shortening it for straight fixed variable -- allows the utility the fair opportunity to recover costs

approved and removes disincentive for the utility to support energy efficiency services and incentives.

A. Yes.

Q. Do us see that?

A. I do.

Q. Does the same statement apply to decoupling, that decoupling allows the utility fair opportunity to recover costs approved and remove disincentives for the utility to support energy efficiency services?

A. When you say decoupling, do you mean the full decoupling mechanism, such as the SRR-B that Vectren proposed in this proceeding?

Q. We can take that first, yes. We will talk about full decoupling or what you characterize as SRR-B.

A. The decoupling mechanism would also provide the utility with a fair opportunity to recover its costs and remove the disincentive.

Q. With respect to a partial decoupling, would that statement also apply to a partial decoupling proposal?

A. If the partial decoupling proposal means that only the nonnormal weather impacts are not

reflected in the decoupling mechanism, then the answer would be yes.

Q. So, for instance, if we talk about the SRR-A, you view that as a partial decoupling mechanism; is that correct?

A. That is correct.

Q. But the SRR-A does not contain a nonnormal weather provision; is that correct?

A. That is correct.

Q. So SRR-A, if we were calling that partial decoupling, would that statement also apply to the SRR-A? Does the SRR-A, as you have structured it, allow the utility a fair opportunity to recover the costs approved and remove disincentives to support energy efficiency?

A. It would, except for the fact that some fixed costs may be under or overrecovered because of the lack of the nonnormal weather tracking.

Q. And that would be the only exception to the SRR-A.

A. Yes.

Q. And that's how you -- when you're talking about a partial decoupling versus a full decoupling, the distinction you're making is the treatment of

weather, or is there a larger distinction you're making there?

A. When I used it in my testimony, that is the distinction.

Q. The weather.

A. The lack of the weather tracking.

Q. And, again, in the SRR-B you have what you call weather tracking.

A. Yes. The SRR-B would be full decoupling, and it would recover the base revenues from the last rate case irrespective of nonnormal weather or reductions in average use per customer.

Q. Still on page 5, further on down, lines 28 through 29, you have the statement that the SFV eliminates the linkage between base revenue recovery and sales volume. Do you see that reference?

A. I do.

Q. Would that statement also apply -- and since I understand where you are going, would that statement also apply to full decoupling, that full decoupling would eliminate the linkage between base revenue recovery and sales volume?

A. Yes. Again, with full decoupling meaning the decoupling tracking mechanism.

Q. With the weather tracking.

A. Yes.

Q. And would that statement also apply to the partial decoupling as exhibited by SRR-A?

A. Not entirely, because of the lack of the nonnormal weather. In other words, sales volumes could still have an impact on fixed cost recovery.

Q. To the extent the weather affected the sales volumes.

A. That's correct.

Q. Now, at page 5 of your testimony on line 30 you reference steadily decreasing average use per customer. Do you see that reference?

A. I do.

Q. Now, there are you speaking of decreasing average use per customer as residential customers, or are you focusing on a different group of customers?

A. In this particular paragraph my reference is to the residential class as far as the declining averages.

Q. Now, when you say residential class of customers for VEDO, are you talking about the residential sales, or are you talking about residential transportation, or are you talking about

a combination of the two when you use the term "residential class"?

A. It is the combination of both the sales and the transportation customers.

Q. And that would be rates 310 and 315; is that correct?

A. Yes.

Q. Now, when you talk about the steadily decreasing average use per customer there, is that steady decrease in average use per customer based on normalized usage or not?

A. The steadily decreasing average use per customer that I've observed is on both, weather normalized and nonweather normalized. Over the past few years the actual as well as the weather normalized average use per customer has declined.

Q. And the decline that you are actually testify to on the following line, the decrease from 931 Ccf per year to 815 Ccf per year in this rate case, what you're comparing is the 2004 VEDO rate case?

A. Yes.

Q. And the 931 Ccf, was that an actual -- was that an average use per customer coming out of

that case, or was it a forecasted use per customer?

A. The 931 Ccf would have been the average use per customer based on the test year in that proceeding.

Q. And the test year in that proceeding, was that a partially projected test year? Would it have been actual plus projected months, if you know?

A. It would have been, yes. It was partially projected.

Q. Can you recall what the test period was and the makeup of that in terms of actual and projected?

A. I think the test year ended 12/31/2004, but I would have to check that to be certain.

Q. Okay. And do you have an understanding of the 12 months data that make up the 931 Ccf, what of those months would have been actual and how many would have been projected, if you know?

A. We filed a three and nine, three actual and nine projected, but we updated those I think with a six and six filing.

Q. And do you know whether the 931 Ccf reflects the three month actual, nine month projection or the six and six?

A. I don't recall for sure. I think they were very closely aligned.

Q. Meaning that the updated figure, as well as the initial three and nine, showed an average use per customer approximately at the same level?

A. That is my recollection.

Q. Now, I'm going to go back a moment, several questions ago, and I apologize for not following up on it then, you said that the steady decrease in average use per customer that you are testifying to occurs on -- my question was it on a normalized usage or nonnormalized usage, and you said both. With regard to the 931 Ccf figure shown on line 32, is that a nonnormalized average use per customer, or is that the normalized average use per customer figure?

A. That would be a weather normalized average use per customer.

Q. You indicated that on the nonweather normalized basis, that the average use per customer has also decreased. Do you recall that statement?

A. Yes.

Q. And what is the basis of that statement?

A. Over the years that I've been in the gas

business, over time the use per customer, average use per customer has declined, if not every year, consistently over the years. I started in this -- well, in about 1981, the average use per customer at the utility I worked at was 141 Mcf a year and over the years, that has been dropped down into the 80 plus range, so there has been a consistent decline over the years.

The actual weather or the nonweather normalized average use has also gone down because the variations caused by nonnormal weather still result in lower usages over time than they had in prior years.

Q. Now, the weather normalized average use per customer, going back to the 931 Ccf per year, that was a figure from the VEDO's 2004 rate case, was that a 30-year weather normalization or 10-year weather normalization, if you know?

A. I believe it was a 30 years weather normalization adjustment.

Q. Okay. Let's now focus on the 815 Ccf per year in this rate case that's shown on line 32, page 5, as the average use per customer. Can you tell me what that figure represents in terms of test

year and whether it is partially projected or whether it is actual.

A. The test year in this rate case ended May 31, 2007. We filed a three and nine, three months --

Q. I'm sorry, is that 2007 or 2008? Ended May 31 --

A. I'm sorry, 2008, yes.

Q. Thank you. I'm sorry to interrupt your train of thought. I just wanted the record to be clear.

A. We filed in this case a projected three and nine as well, I believe.

Q. So are you finished? I'm sorry to interrupt you.

A. I am.

Q. So is it your understanding that the 815 Ccf per year figure shown there is a projection with three months actual and nine months projected?

A. That was the basis of our filing. The weather normalization adjustment would have dealt with the three months actual and ultimately what you're left with is a weather normalized number for the entire period.

MS. GRADY: Can I have that answer read back.

(Record read.)

Q. So you had the three months actual and nine month projection, and then you weather normalized it on the basis of a 10-year forecast; is that correct?

A. The weather normalization -- and this is not my particular area.

Q. I understand.

A. So it is my understanding that we did use a 10-year weather for normalization of this period.

Q. Have you looked at the budgeted average use per customer for the test period, and are you aware of what that shows?

A. I have not, and I am not aware.

Q. Mr. Ulrey, if I had questions about the gas AUPC analysis showing the residential RER model weather normalized average use per customer, would those be questions you could answer, or would those be more appropriately directed to another witness at VEDO?

A. I'm not sure what the RER analysis is, but if it's a question regarding 10-year weather, the

witnesses that would be able to answer questions along those lines would be Ms. Hardwick, as far as the revenue portion of her testimony, and Dr. Gorman filed testimony on 10-year weather.

Q. Mr. Ulrey, is there a revenue impact that must be addressed from the company's perspective if there is an increase in sales from new customers that more than offsets the loss from decrease in average use per customer?

A. Under a decoupling there would not be a base revenue impact from new customer usages at all.

Q. Is that because the customer count is set in the decoupling, and then if there are additions or losses to customer count, they are taken out of the decoupling equation as you proposed in SRR-A and SRR-B?

A. In the decoupling mechanism net new customer additions are valued at the average revenue per customer from the most recent rate case. So that would be the dollar amount that would be the revenue impact. It would not be impacted by usage of those customers.

Q. I guess you confused me when you said there is no base revenue impact reflected in the

decoupling. Can you explain what you mean there?

A. I was answering your question about increased usage from new customers.

Q. Oh, okay. Because you're saying if there are new customers in there, you are going to assign them the average use per customer and not --

A. The average base rate per customer irrespective of their actual usage.

Q. Of their actual usage.

A. Yes.

Q. Outside of decoupling, let's put decoupling aside for the moment, from the company's perspective is there a revenue impact that must be addressed if there is an increase in sales from new customers that more than offsets the decrease in average use per customer?

A. A revenue impact that must be addressed, is that what you said?

Q. That's what I said.

A. If I understand the question, I would say outside of decoupling, which is not our proposal in this case, I don't know that there would be a mechanism for addressing revenues in that sense.

Q. And I guess I was saying from the

company's perspective, would the company view that as a problem that would need to be solved by a regulatory mechanism?

A. To make sure I understand, the problem is that new customers are generating -- are showing usage in excess of the reduction from existing customers?

Q. Maybe if we did a numerical example. I probably shouldn't have said that because I'm so bad at numbers but let me try. Let's say that associated with your average use per customer you're receiving $100 million less than authorized in the rate case, in the last rate case. We are going to tie it to the last rate case because that's where you seem to be tying your SRR-A. However, during that period in time, the revenues from new customers have now increased from the level set in the rate case to $150 million.

In that situation where the increased revenues from new customers has more than offset the loss in revenues associated with the declining average use per customer, is it still the company's position that the decrease in average use per customer should be addressed on a regulatory basis

through a mechanism?

MS. HUMMEL: I object to the form of the question.

You can answer.

A. If those are the only facts, if we were not proposing, for instance, the demand-side management program that would reduce usage dramatically, could impact this equation, then it would appear, given that set of circumstances, that we are earning or have an opportunity to earn the revenues that have been authorized in the last rate case, and depending upon the cost to add the new customers and the additional return associated with those, it is possible that there would be no need for any kind of mechanism.

Q. So it really goes back to whether you believe the company is being given an opportunity to earn its authorized return from the prior rate case.

A. An opportunity to earn the base revenues from the prior rate case, plus, as our decoupling mechanism works, a return on new customers added after that point in time.

Q. Does the addition of new customers create new net income for the company when the new customers

are new in relation to what was the number of customers that existed at the last authorized test period in the preceding rate case?

A. No. The cost to add a new customer includes on average main extension, as well as the service stub, and those costs generally -- well, those costs are not recoverable -- recovered fully through the embedded rates, the average rates, that we use to charge customers. So what happens is each new customer addition creates the need for rate relief in the future and does not typically add to that income.

Q. At page 5, line 31 -- actually, I think we can move on to page 6. Looks like we are just flying right through this stuff.

At page 6 at the very top of the page you reference the AGA studies in 2001, 2003, and 2004. Do you see that reference?

A. I do.

Q. And in there you synopsize or you characterize those studies as projecting a continuation of the downward trend in average use per customer. Do you see that?

A. Yes, I do.

Q. With respect to those studies, is that the average use per customer on a normalized basis or on a nonnormalized basis, if you know?

A. I think there were a mixture of normalized and nonnormalized between the studies.

Q. Did you bring those studies with you today?

A. I did.

Q. If you could quickly look as those and tell me which ones were on a normalized basis and which ones the use per customer was on a nonnormalized basis I would appreciate it.

A. The June 16, 2003 report, which is the first one I pulled up here, reported on a weather normalized Mcf basis. The February 11, 2000 reported on a weather normalized Mcf basis. And the September 21, 2004 also projected the continuing declines on a weather normalized basis. They all three used weather normalized data.

Q. Mr. Ulrey, if you know, were those studies provided to the Office of Consumers' Counsel in the course of discovery?

A. I do not recall.

MS. HUMMEL: How could you possibly

remember after close to a thousand requests?

MS. GRADY: Those studies would be something that we would appreciate getting copies of, especially since we are referring to them in the deposition and they are contained within his testimony. I would appreciate if they would be on the list. We're going to create a list, I think. At this point rather than I guess -- I probably should have asked this at the outset.

Q. In response to the notice of deposition, I see you brought to the deposition a number of documents. If you could tell me what those documents are briefly and just identify them, I would appreciate it.

A. Certainly. I brought my direct testimony, my supplemental testimony. Actually the binders contain several of the witnesses' testimony on direct. I brought Schedule E-1B, which is the redlined tariff. Schedule E.3, which contains the narrative rationale for tariff changes. Schedules E.4 and E.5, those are the volumes bill impact revenue schedules. I brought a copy of the application document. I brought copies of the AGA studies referenced in my testimony. I brought

support for SRR-A calculation, and I brought information on Vectren's new mission values statements and upcoming campaign to encourage our customers to live smart and reduce customer usage.

Q. You brought more documents to the deposition than I did. Congratulations.

A. Thank you very much.

Q. I like the color copy as well.

MS. GRADY: To the extent we receive copies of the AGA studies, that would certainly cut down on my questions on those. In fact, I would defer all those questions and expect they could be answered on my own without taking Mr. Ulrey's time. I would appreciate copies of those. And I think also if you look at the Notice of Deposition in the duces tecum portion of it, it would have indicated that Mr. Ulrey was to bring documents related to his testimony and in support of his testimony so I would state for the record that would be my belief, that those should be produced pursuant to the deposition notice.

Q. Mr. Ulrey, are you aware of any studies out there that would dispute what you called the continued downward trend in average use per customer?

A. No.

Q. On page 6, line 7 through 10 you discuss what you term as a gradual move to full SFV rate design, and by full SFV rate design do you mean a customer charge with no volumetric rate piece?

A. That's correct, other than the gas cost portion of the customer bill.

Q. Yes. Now, you also speak there of gradual movement over the period of two rate case cycles, this case and the next. Do you see that?

A. Yes.

Q. Now, in this case you are proposing Stage 1 and Stage 2 rates, and Stage 2 in this case begins in 2010; is that correct?

A. That's what we have proposed.

Q. Then there would be further movement towards full fixed variable in the next rate case, correct?

A. Right.

Q. Now, in characterizing it as gradual, I guess my question is when is the next rate case going to be filed so that we could judge whether in fact that's a gradual period?

A. Certainly it will depend upon the outcome

of this particular rate case as to when the next one would be filed, but assuming a reasonable outcome, our rate case cycle has been three- and four-year time frames. So when we were preparing this particular proposal, we were thinking in terms of three or four years between this rate case and the next.

Q. Between the filing or between the effective date?

A. I would say both.

Q. So this case was filed in 2007. If we use the three- to four-year cycle, you were projecting that the next rate case would be filed in 2010 or 2011.

A. Approximately.

Q. And assuming that the next rate case will be filed in 2010 or 2011, you would then have a stage proposal at that point so that you achieve a full SFV in five to seven years?

A. That was my proposal.

Q. So that that would occur essentially in 2012 to 2014, 2014 being the point at which you would expect you would reach a full fixed rate variable?

A. Yes; again, approximately.

Q. And you are seeking in this case an approval from the Commission on the Stage 2 rate increase, right?

A. That's correct.

Q. Now, I'm going to go back a bit. You recall our discussion so far has been about the average use per customer decreasing for the residential class, and you qualified that by saying the residential class there is sales and transportation and rates 310 and 315. Now I'm going to switch gears and focus on your general service customers. Is it also your conclusion for general service customers that there is a steadily decreasing average use per customer?

A. Yes. That's my understanding.

Q. And when you say general service customer, do you understand that term to be general service sales as well as general service transportation customers?

A. Yes.

Q. And those would be rates 320 and 325?

A. That's correct.

Q. Now, do you have or do you know -- when we talked about the average use per customer

decreasing from the 2004 rate case period, do you know from the 2004 rate case period what the average use per customer was in 2004 versus what you've incorporated into your test period in this proceeding?

MS. HUMMEL: You mean for general service?

Q. For general service.

A. I did not record that, and I do not know.

Q. But there would be factored into this rate case a general service average use per customer, correct?

A. This rate case would indeed reflect an average use per customer that could be calculated for the general service rate class.

Q. And would that be a weather normalized average use per customer, if you know?

A. It would be.

Q. And would that also be on the same basis as the three and nine weather normalized average use per residential customer, if you know?

A. That is my understanding.

Q. Now, on page 6, lines 22 through 24, you say that Stage 2 is not a revenue increase. From

whose perspective are you making that statement? Is that the customer's perspective or the company's perspective?

A. It is true for both the company and the customer class.

Q. And I understand from the company's perspective, but can you explain to me how from the customer's perspective Stage 2 would not be a revenue increase?

A. The customer class revenues would stay the same in Stage 2 as they were in Stage 1. It's using the same revenue distribution to that rate class as was approved for Stage 1, simply moving dollars from the volumetric charge to the customer charge.

Q. But the end user customer would see a decrease in volumetric charge and increase in fixed charge.

A. That is correct.

Q. So from a customer's perspective receiving the bill, the customer would perceive a rate increase, wouldn't you agree?

A. By perceive a rate increase, do you mean because the customer charge is higher?

Q. Yes.

A. And you would perceive that to be an increase because the customer doesn't understand the volumetric portion of the rates?

Q. Well, for whatever reason, if they don't understand the volumetric portion of the rates, or they see instead of their bill being $20, it is now $32.

MS. HUMMEL: I am going to object on the grounds that the question calls for speculation.

A. Part of the rationale for the gradual transition was to allow the company an opportunity to educate customers on the change as time goes on, and so from the company's perspective, our education approach would be to make sure that the customers understood it was not a revenue increase for the company.

Q. And, again, when you say it is not a revenue increase for the customer, you are saying that because the customer class revenues would stay the same and the revenue distribution would stay the same as set in the rate case.

A. That's correct.

Q. Now, on page 6, line 7, you characterize

the move -- and we spoke about this a little earlier, about the gradual move to the full SFV. Are you speaking about gradual in terms of the time it takes to get to full SFV being a five- to seven-year period?

A. Yes.

Q. The customer charge doubles, does it not, from under your initial proposal, Stage 1, from $7 to $16.75 for winter Stage 1 ten and moves to 20.04 in winter Stage 2; is that correct?

A. Ms. Grady, are you talking about the average customer charge when you say the winter charge doubled from Stage 1?

Q. Yes. It starts out -- if you look at -- I was looking off your E schedules. It listed there the customer charge presently is $7. And you've proposed a seasonal customer charge, and the first stage, as I understand it, bumps the customer charge up to 16.75 in the winter; is that correct?

A. That's correct.

Q. And then the customer charge moves in Stage 2 to $20.04; is that correct?

A. We had actually proposed $22. The Staff Report proposed $20.04.

Q. I'm sorry. My mistake. Okay, thank you. Mr. Ulrey, to the extent that that low-usage customer -- let me strike that. Does Vectren have low-usage customers on its system?

A. In the residential class?

Q. Yes.

A. We have more or less standard distribution customer sizes. We do have some low use customers. We have some high-use customers. Most of them are very close to the average use, so but you do have some low-use customers on the tails of the bell curve.

Q. Low-usage customer, when you use the term low-usage customers on the tail ends of the bell curve, what usage are you thinking of?

A. There are a few customers that have zero usage.

Q. Those are the low usage that you are referring to? I would call those zero usage.

A. We have zero-usage customers that have a gas connection that involves a meter and service and a main, but use no gas. And we have customers that are nonspace heating that use smaller amounts of gas than the average, very few of those as well. Most of

our customers, as I say, are close to the average because they are space heating customers.

Q. Let's talk about the zero usage, you say there are a few customers. Can you estimate how many those would be, if you know?

A. What I can say is that we proposed an adjustment in this rate case that proposed the elimination of 8,000 bills, I believe that's both residential and general service, because of the low use nature of those customers, and the assumption was that rather than continue to pay -- rather than pay the full cost associated with their service or higher costs, that they would drop from the system because of nonuse or low use. That's 8,000 bills, 600 plus customers, and I would think a good portion of those would have been residential. I did not do the adjustment, but that's my recollection of the numbers.

Q. And you did that for purposes of developing your avoided, what do you call it?

A. We have proposed an avoided customer charges provision on our reconnect charge, but this was a pro forma adjustment to revenues to reflect the proposed rate design.

Q. And the rate design, that would be the reason you would have done that pro forma adjustment because of your proposal for the avoided -- I'm sorry -- the avoided --

A. No. The avoided customers charges would be for those customers who didn't drop. Those would be space heating customers.

Q. Those would be the low heat?

A. No. Space heat is high in winter and low in the summer they would be dropping, two different categories.

Q. Now, to the extent you have a low-usage customers, as you define them, or a zero usage, customer, does that customer put the same peak-day or peak-hour demands on the system as other customers in the same class? Let's keep it in the same class, other residential customers.

A. Not as far as actual usage, but certainly as far as the capability of the facilities that have been installed to serve them. They have the capability to use the same peak-day or peak-hour usage as other customers in the same class.

Q. Would having these customers be part of your system, would that actually benefit the customer

class load factor?

A. By "these customers" we are talking about the low-use customer?

Q. The low-use customers, the residential we have been talking about.

A. No. They would have virtually no impact on the load factor because of their low use. It just doesn't impact.

Q. Because of the low use and the few number of customers?

A. Yes.

Q. So it's a combination of both. Now, on page 7, lines 8 and 9, you use the term "homogeneous, and I am going to talk to you about homogeneity. Do you see that reference?

A. I do.

Q. Can you define "homogeneous" as you use on line 9 of page 7 of your direct testimony?

A. In this sentence it's being used in reference to the large general service customers' usage characteristics. That's the group 2 and group 3 meter customers. The usage characteristics there include things such as their peak-day demand as it's reflected there, the size main and service to their

location, as well as the meter that's installed.

There is a variety of different size customers within these two groups that have different sizes of facilities, and because of that diversity, I've used the phrase not homogenous. They are not the same.

Q. Okay. So when you use homogenous there, you would be referring to usage characteristics, as well as the different sizes of the customers, as well as the equipment that supports the size of the demand placed on the system by those customers.

A. I am -- the usage characteristics impact the facilities that are installed to serve that customer, and that's actually what I'm referring to.

Q. Okay. Now, not having been involved in your last rate case but hearing about it, can you explain to me the different groups, what's behind the different groups? You have group 1, 2 and 3 for general service sales customers as well as general service transportation customers.

A. That is correct.

Q. And can you tell me what they represent?

MS. GRADY: We just had a beep. Did someone leave us or join us?

MR. MARGARD: I'm not sure how you will know if someone left.

MR. FRIEDEMAN: By your nonresponse.

(Discussion off the record.)

A. I can define the general service meter groups.

Q. Yes.

A. The general service rate class consists of a number of customers. We have separated them into meter groups called group 1, group 2, group 3, based on the size of their meters.

Q. Okay.

A. When we install service for a customer, the meter is sized to meet the expected peak-hour and peak-day demands of those customers, and so the meter size is a good proxy for the customer's capability to call on the system. Our group 1 is similar in size to our residential class. Those are the meters with rated capacity of 450 cubic feet per hour or less. The next group is for those general service customers with meters that have a rated capacity of greater than 450 cubic feet per hour but less than 1,100 cubic feet per hour.

Q. Yes.

A. And we put a break point there to create a new group 3 in this rate case, and that is for all general service customers with meters with a rate capacity of greater than 1,100 cubic feet per hour.

Q. So group 3 is new to this case.

A. It is.

Q. Okay. That was helpful. Thank you.

A. You're welcome.

Q. And you indicate that group 2 and 3 meter customer usage characteristics are not homogenous, I'm assuming that your opinion is that group -- meter group 1 is homogenous; is that correct?

A. Group 1's facilities, the costs of those facilities, are homogenous. It takes the same size service main, meter to serve them, so in that respect they are homogenous. As I say, they're very similar to the residential class.

Q. I guess I'm a little confused, and maybe I'm just slow today. Before we were talking about homogenous in terms of usage characteristics of customers. Are you now making a distinction and talking about homogenous in terms of the cost of the facilities to serve the customers?

A. When we talked about group 2 and group 3,

I was intending to say that the usage characteristics impact the facilities' size, and those were diverse and, therefore, they were not homogenous. In group 1 the meter sizes are virtually the same. Their maximum call on the system then is virtually the same, meaning that the size of service and minimum main extension necessary to serve them would be the same. So when I said facilities being homogenous, that implies certainly what we are doing here as rate design, that implies that the cost to serve is homogenous.

Q. Does it also imply that the usage characteristics of those customers is homogenous?

A. There would be a distribution of usages for the general service group 1 class, as well I don't believe it is as perfect a bell-shaped curve as the residential class, so it's not as homogenous as the usages in the residential class, but, again, it's the facilities that are the same.

Q. Now, for general service customers -- let me back up. One of the reasons I believe you indicate that you would go to SFV, especially for the residential, is that the residential customers are not homogenous. Is that a correct characterization?

A. One of the reasons we felt comfortable to go to SFV over time for the residential class is because the facilities to serve each of those customers are very similar and the cost of those facilities are similar; therefore, the cost to serve those customers are similar. So it is because those facilities are homogenous that we would propose a straight fixed variable for them.

Q. Now, you've also proposed straight fixed variable for your general service customers, isn't that correct, for groups 1, 2 and 3?

A. That's correct.

Q. And yet your testimony today is that at least for groups 2 and 3 are not homogenous. Is that correct?

A. The cost to serve those customers vary based on the facilities that are installed to meet their particular usage requirements so they are not homogenous. A single fixed charge, in other words, would not cover every customer in that class. We would have to use other approaches, and we proposed a billing demand charge to effectuate straight fixed variable for those customers.

(Record read.)

Q. So you're assuming that when you're moving to SFV for the residential customer class that a single fixed charge would cover every customer in that class.

A. Yes; subject to our seasonal rate proposal, right. It's two fixed charges, seasonally differentiated, but it would be the same for all customers.

Q. And this is kind of what we have been talking about, but I would like to get your response to this. Why is homogeneity important in determining whether to transition to a straight fixed variable? We have been beating around the bush so I really would like to know, or at least like to have it on the record.

A. The residential class has -- each customer in that class has identical, for the most part, meters, services, and mains, so the cost to serve them is identical. No matter how much they use on a particular day or throughout the year, the cost to run that service and to hook up that customer is on average the same. It's that similarity or homogeneity that allows us to assign the same fixed charge to each of the customers in that class and to

eliminate the usage-based volumetric charges.

Q. And so -- go ahead.

A. On the other hand, as it relates to general service customers --

Q. That's where I was going but, I'd like to hear it from you.

A. -- we can't implement a fixed charge that would be applicable to each of them, but we can propose billing demand charges that eliminate a volumetric charge and more accurately allocate the costs to serve a particular customer based on their facilities that we have invested in to serve them.

Q. And you have proposed in this case implementing a billing demand charge?

A. Not in this case. We did not propose in this case to do anything other than a Stage 1 rate for the general service. Our proposal, what I describe in our proposal, is that in the next rate case we would propose billing demand charges that would get us to straight fixed variable.

Q. And why did you make the determination that it was necessary in get a straight fixed variable for residentials in two stages in this case, and yet for your general service customers decided

that you would do a Stage 1 and drop the Stage 2 until your next rate case?

MS. HUMMEL: I object. It mischaracterizes Mr. Ulrey's proposal for the residentials.

A. We proposed for the residentials to make progress towards straight fixed variable but not all the way there. They have a long way to go, and it was going to take -- we proposed to take several iterations to do that.

Q. Yes.

A. With the general service class we did not prepare a billing demand proposal based on discussions internally and with staff prior to filing our rate case for purposes of this filing but intend at this point to do that in the next rate case. It may be accompanied by a Stage 2 proposal for the general service customers at that point as well. We simply haven't made that determination yet.

Q. And what were the kind of issues that you discussed which weighed in favor of not going forward with a more aggressive move to SFV for the general service customers?

A. We proposed fairly significant moves in

the customer charges for those classes as it is in this proceeding. So that was movement in the direction that we ultimately want to go. We took it pretty much to what we felt was to the limit on the customer charge without coming into difficulty with the homogeneity issue. We hit the limits of the fixed customer charge, in our opinion.

The next stage would be the billing demands, and we simply did not want to add that complexity to this rate case as we discussed the other components, including straight fixed variable for the residential class.

Q. Have you reviewed, Mr. Ulrey, OCC Witness Colton's testimony on residential customers and the lack of homogeneity associated with them?

A. I read Mr. Colton's testimony. I didn't read it closely, but I have read it.

Q. Would you agree, Mr. Ulrey, with Mr. Colton's conclusion there's a difference in natural gas usage of the lowest income and the highest income residential customers?

MS. HUMMEL: Could I hear the question back, please.

(Record read.)

A. I would have to say I didn't read it close enough and study it close enough to reach a conclusion on Colton's conclusions.

Q. Would it be your general opinion outside the conclusion expressed by Mr. Colton there is a difference in natural gas usage between the lowest income residential and the highest income residential in the residential customer class?

A. Well, let me say I'm not sure what the lowest and highest boundaries are.

Q. For Vectren you mean?

A. Just in your question and the definition that you're using.

Q. Okay.

A. Besides that, I don't have any data as it relates to Vectren's highest and lowest income customers to make that determination myself.

Q. Are you aware of any studies or information or statistics that would indicate that there's a difference generally in natural gas usage between residential customers on the low income -- lowest income level and the highest income level?

A. I don't have knowledge of analyses, others' analyses, to make that assertion or

demonstrate that. I do know that if you include or consider the PIPP customers, Percentage of Income Payment Plan customers on our system in the lowest income categories, which presumably they are, then we do have evidence that they use more than customers on average. I don't have information on income levels, though, including that.

Q. What would be the basis of your information? Is it based on a study? What is the foundation of that statement, that PIPP customers in the lowest income category use more gas than customers on average in the residential class?

A. Dr. Overcast's testimony has an exhibit that shows that for the Vectren system the PIPP customers, not PIPP customers in the lowest income category, but the PIPP customers' usages compared to the average customer usage, and it's Dr. Overcast's Exhibit HEO-1 of his direct testimony.

Q. The exhibit or appendices?

A. It is Applicant's Exhibit HEO-1.

Q. Thank you, Mr. Ulrey.

A. You're welcome.

Q. Would that be the extent of the difference in natural gas usage between the

residential customers on the PIPP end of things and average use?

A. Yes, as far as average use.

Q. On page 7, lines 19 through 21, you indicate that VEDO proposes to implement a modified full decoupling rider proposed as SRR-B. Do you see that reference?

A. I do.

Q. And under that full decoupling approach, the risk of revenue loss associated with abnormal weather, as well as customer usage, would shift to customers; is that correct? Let me strike that and start all over again.

Under the full decoupling rider the company would no longer face the risk of abnormal weather or reduced customer usage; is that correct?

A. Under full decoupling that is correct, and further that customers would not be at risk for abnormal weather as well.

Q. Are you speaking of the symmetrical operation of the SRR-B when you make that statement?

A. The weather component of the SRR-B is applicable in colder than normal weather as well as warmer than normal weather. If it is colder than

normal and customers would otherwise pay volumetric charges in excess of normal weather, under the full decoupling rider those charges would be returned through the decoupling rider.

The opposite is true as well so it is symmetrical, that is, if it was warmer than normal and volumes were down, the base revenue impact of that reduction would be recovered through the SRR-B as well.

Q. So essentially if the weather is warmer than normal or the average use per customer is decreased from the authorized level in this rate case, the company would recover revenues from customers for those two events.

A. Yes, under the full decoupling rider.

Q. Now, gas utilities traditionally had to bear the risks of weather, would you agree with that in terms of recovering revenues that are authorized?

A. Not most utilities, gas utilities, I mean. Ohio may be one of the last states to recognize that there's no value in having customers or companies be impacted by the base revenue impacts of abnormal weather. There must be 50 utilities, almost all of the large utilities in the country have

some sort of weather tracking mechanism, and some of them have been in place since 1980. So I would say that it's more rare now to find companies without weather trackers than with.

Q. If I limited my question and said haven't gas utilities in Ohio always had the risk of weather in terms of authorized revenues, would your answer be different?

A. Well, the word "risk" is throwing me because abnormal weather works both ways. It could cause customers to pay more than contemplated in the last rate case because of simply colder than normal weather, or the company to forego approved revenue recovery because of warmer than normal weather. The probability if rates are designed based upon a reasonable weather time period is equal either way. So the probability -- you say risk. The probability that either utility or customer could be impacted by abnormal weather seems equal. I'm having difficulty attributing that is as of benefit to one or the other, of customer or company.

Q. If the company receives approval in this rate case for a mechanism allowing the company to recover authorized revenues regardless of actual

weather, would it be your assumption that that is favorable regulatory treatment from the Commission and would impact your earnings per share?

A. I think it would be appropriate regulatory action. The assumption is that it would not impact earnings per share, rather the utility would earn what was approved in the last rate case. The assumption in a rate case is normal weather. Rates are designed based on normal weather. So to the extent you have normal weather, you earn what was contemplated in the last rate case, which would be not an increase in net income.

Q. To the extent the company receives approval of a decoupling mechanism, and let's first talk about a full decoupling mechanism, would it be your assumption that the earnings per share associated with the company's -- let me strike that.

If the company receives approval of a full decoupling proposal, would you view that as a favorable regulatory action that would affect or increase the earnings per share?

MS. HUMMEL: Could you read the question, please.

(Record read.)

MS. HUMMEL: I think he answered that.

MS. GRADY: No. I was talking about weather normalization before. Now we are talking about not only the weather piece but the revenue piece as well.

A. Decoupling would ensure -- full decoupling would ensure that the revenues recovered from customers is what was approved in the last rate case. That alone, without considering the ability to operate the company over a rate case cycle and the O&M associated with that, would imply no impact on net revenues versus the rate case. Full decoupling simply allows the utility to earn -- to recover the revenues contemplated in the last rate case.

Q. Are you aware, Mr. Ulrey, whether in the financial statements published by the company when reporting on the decoupling approved in 05-1444, of whether the company made statements reflecting the impact of the decoupling on earnings per share?

MS. HUMMEL: May I have that one read back.

(Record read.)

MS. HUMMEL: Do you understand that?

THE WITNESS: Yes.

A. I am not aware specifically of those -- of particular statements to that effect, specific statements to that effect. I do recall being cross-examined on those statements in that docket, so I generally recall that in an 8K or in a presentation to investors, there was a mention of the net income impact of the decoupling mechanism.

Q. And do you generally recall whether that had a favorable impact on earnings per share, if you know?

A. I don't recall the specific statements that were made, but consistent with my prior answers, it would not be an increase in net income compared to what was approved in the last rate case.

Q. I guess I wasn't focusing on net income. I was looking at earnings per share.

A. It would be the derivative of the earnings per share, which is based on net income divided by the number of shares.

Q. I guess I'm going to have to pull those exhibits.

Mr. Ulrey, moving on, referring to page 8, line 6, you indicate that VEDO has retained its current riders with four exceptions. Do you see

that?

A. Yes.

Q. Now, for residentials, and, again, when I say residentials, I'm talking about -- let me strike that. For the residential 310 and general sales 320, would you agree with me that the current riders are the Gas Cost Recovery Rider -- I'll wait until you get there.

Let me start again. For residential 310 and general service 320, the current riders are the Gas Cost Recovery Rider, the Migration Cost Rider the Gross Receipts Tax Rider, the Uncollectible Expense Rider, the PIPP Rider, SB287 Exercise Tax Rider, and the Sales Reconciliation Rider.

A. That is correct for both 310 and 320.

Q. And for residential transportation 215 and 325, the current riders are somewhat of a subset. They are the Migration Cost Rider, the Gross Receipts Tax Rider the Uncollectible Expense Rider, the PIPP Rider, and SB287 Rider; is that correct?

A. That is correct.

Q. And this large general sales service 330 and duel fuel 341 have a Gas Cost Recovery Rider, a Gross Receipts Excise Tax Rider, Uncollectible

Expense Rider, the PIPP Rider and SB387 ride?

A. Correct.

MS. HUMMEL: Is that 287 or 387?

MS. GRADY: 287, thank you. Now, the large volume transportation 360 have just the Gross Receipts Rider and the SB287 Rider, correct?

A. Correct.

Q. And rate 380 has a Cooling Service and a Gross Receipts Tax Rider only.

A. Yes.

Q. And rate 385 has a Balancing Cost Rider and Gross Receipts Tax Rider; is that correct?

A. Yes.

Q. Can you tell me what the Migration Cost Rider is and when it was approved?

A. Yes. The Migration Cost Rider is intended to recover from all CHOICE-eligible customers the costs of pipeline capacity or supply that's stranded, in other words, not used and not otherwise -- the cost of which is not otherwise recovered by migration of customers from utility sales service to CHOICE transportation service.

Q. And when was that approved, if you know?

A. It was approved as part of the CHOICE

Settlement Agreement, which was approved in August 2002.

Q. Now, in your testimony you describe SRR-B as differing from SRR-A because SRR-B is a full decoupling that would eliminates the weather normalization of the monthly base revenues. Do you see that?

A. Correct.

Q. Now, the full decoupling rider would essentially guarantee a base level of use per customer; is that correct? The base being what is approved in the rate proceeding.

A. SRR-B would have the effect of providing the company with the base revenue per customer approved in the last rate case for each of the customers it's serving.

Q. The base revenue per customer, in this case, what would it be, if you know, as proposed by the company?

A. I would have to calculate it. I don't know it offhand. It is simply the base revenues proposed to be recovered from the residential sales and transportation customers divided by the number of customers in the base rate case.

Q. And how would you figure that? What schedule would you look at to make that calculation?

A. Looking at Schedule E-4, which has proposed revenues on page 1 of 2 for the residential class, and I would need to divide the residential base revenues by the number of customers which I can derive from the number of bills on Schedule E4.1, page 1 of 32.

Q. So the revenues column would be the gas -- would be column H on that schedule?

A. I would use Column F, which is the proposed revenue less the gas cost revenue.

Q. So for the residential class customer, you would add the two figures up for residential service for 310 and 315 and divide that by the number of customers; is that what you were saying?

A. Yes.

Q. And the number of customers would be Column C divided by 12 because that's customer bills.

A. Yes. Now, that Column F may not be just base revenues. It may have some tracker revenues in it, but Schedule-E-4 and E4.1 would have the components necessary to calculate that average cost per customer.

Q. Okay. That would be the base revenue per customer proposed by the customer in this case that would be guaranteed under a full decoupling proposal or an SFV proposal, correct? Let me strike that. Let's leave it at decoupling, full decoupling.

A. That's the per customer revenue that the company would recover under a full decoupling scenario.

Q. And if there were new customers, that number would be used for their usage to determine how many -- how much revenue would be guaranteed to the company associated with the new customers added.

MS. HUMMEL: Object to the characterization, guaranteed.

Q. Let me instead of guaranteeing, let's say collected through the decoupling rider from customers.

A. Yes. In essence, full decoupling is designed to generate revenues equivalent to the last rate case base revenue per customer.

Q. It's like a dollar-for-dollar tracking on revenues, correct?

A. It is a base revenue tracker based on number of customers served.

Q. Now, under your proposal SRR-B would replace SRR-A, and you state that on page 8, line 18. Do you see that?

A. Yes.

Q. And when would it replace SRR-A? After SRR-A had run its course?

A. Yes. And after SRR-B is approved to be effective, presumably on the effective date of rates in this proceeding.

Q. So SRR-A and SRR-B would be riders at the same time, is that correct, under your proposal?

A. The SRR-A deferral expires September 30 of this year. So the probability is that the SRR-B deferrals would not overlap the SRR-A deferrals. Now, the reason that we have both of them in the tariff is because the dollars under SRR-A have not yet been recovered.

Q. Understood.

A. They will be recovered over time so the recoveries may overlap but not the deferrals.

Q. That was really what I was getting to, recovery meaning collection from customers, so a customer could actually see an SRR-A rider collecting an increment related to the deferrals as well as an

SRR-B rider collecting deferrals as well.

A. That is a possibility if our proposal is approved, which is to recover over one year the deferrals, there's less likelihood that that would occur or that it would occur for long.

Q. So you're talking about the one-year recovery of deferrals under SRR-A?

A. Yes.

MS. GRADY: Can I have that answer read back.

(Record read.)

Q. If you extended the recovery period for SRR-A, would there be more likely an overlap between the SRR-A and SRR-B from a customer perspective? And, again, when I say overlap, the customer would actually be paying charges under the SRR-B rider at the same time as paying charges under the SRR-A rider.

A. If the SRR-A recovery period was extended longer than the year that we proposed, there would be an increased likelihood that the recoveries of SRR-A dollars and SRR-B dollars would overlap.

Q. For the SRR-B dollars really the collection begins a year after the deferrals have

been approved for booking?

A. Based on our proposal, the deferrals would start as soon as the rate case was approved for implementation. Our proposal is in November of each year to implement the prior year's deferrals, so this would put us in a situation where in November of 2009 the SRR-B deferrals for the prior year would begin to be recovered.

Q. Thank you.

A. You're welcome.

Q. Let's go to page 9, lines 8 through 11 where you talk about the miscellaneous charge, the avoided customer charges. Do you see that?

A. Yes.

Q. Now, the company has made a business decision, has it not, to seek the avoided customer charges.

A. That is correct.

Q. Is the company concerned with the potential loss of customers associated with facing a higher fixed customer charge as proposed by the company?

A. As it relates to the avoided customer charges, we're not worried that we would lose the

customer; we're worried that the customer would drop the obligation to pay the customer charge during the summer months and then return in the winter to take gas service for their space heating equipment.

Q. The company is not anticipating that it will actually lose customers as a result of the move to straight fixed variable where customers determined to use another source of heat other than gas?

A. We did, as I mentioned earlier, anticipate the loss of some customers who had maintained utility service at the low existing customer charges but would, in our estimation, drop from the system once we implemented customer charges that more accurately reflect this cost to serve them.

Q. And I think you testified earlier that was about 600 customers.

A. That's what I have testified to earlier. That was an estimate based on my recollection of 8,000 bills and dividing that by 12.

Q. And how did you get to this group of 8,000 bills? How did you determine these would be customers that could potentially leave the system altogether?

A. We identified the lowest-use customers,

which I believe was 50 Ccf per year and below. And I believe that was the basis for the proposed adjustment to customer count in our current revenues.

Q. So essentially what you're saying is that a customer may make a choice, depending upon their view of the higher fixed customer charge, to leave your system and that customer would then be making like an economic decision that he wants to switch usage from gas to some other source. Is that safe to assume?

A. I think with that size of customer, the likely decision is to remove the meter altogether and not replace it with something else. We didn't contemplate that this was a fuel switching. For one, there aren't any fuels out there for most of our applications that are cheaper than gas. We thought this would be situations where customers really weren't using the service. It was cheap enough with the underpriced service to leave it on and not worry about it. Once we sent a more correct price signal, they would say: Well, I'm not using that and I will drop that.

Q. In that scenario the customer made an economic decision just to drop the service.

A. And it was potentially the same economic -- it made an economic decision when he said: Boy, if it only cost me 7 bucks a month, I will go ahead and ask them to run me a new service. So part of our pricing intent is to send a better pricing signal for new customers as well so that we don't continue to connect uneconomic customers to the system.

Q. Now, it would be your position, obviously, under your avoided customer charge proposal, that the risk associated with the customer's decision would be borne by that customer, is that correct, as opposed to the company or the remaining customers?

A. Our position is that the cost to serve that customer under our proposals are being recovered over 12 months, irrespective of the number of months that the customer uses the service. Absent collecting all 12 months of charges or not collecting from that customer their fair share of the fixed costs they put on the system, the avoided customer charge is the best way we know to ensure that that customer pays the actual cost based on our analysis of serving them.

Q. Now, with respect to the avoided customer charge, does the customer charge recover the fixed cost of actually receiving service?

(Record read.)

THE WITNESS: Could I have the question read, please.

(Record read.)

A. In the situation where all fixed costs associated with receiving service are recovered through the customer charge, in other words, full straight fixed variable, then, yes, the avoided customer charges ensure that we recover all that. To the extent we're not at full straight fixed rate variable and we still have volumetric charges, there will potentially still be some portion of the fixed costs properly attributable to that customer not being recovered through the avoided customer charge.

Q. Does the avoided customer charge then represent a fixed cost for not receiving service?

A. As I say, the avoided customer charge is the best way we knew how to handle customers who were winter-only customers. The cost doesn't change to serve them based on the same meter, the same service the same mains. The cost to serve them doesn't vary

based on their usage or their months of usage. The avoided customer charge improves our ability to recover the fair share of those costs from them.

An option would be for seasonal customers to charge them a higher charge in the months that they are on the system. We're calculating an annual cost to serve a residential customer, that previously discussed margin base revenue per customer. We should get that from each and every customer in that class. If we have to do it over five or six months, we could do it that way with much higher winter customer charges. We simply thought this might be this better way to do that.

Q. If the customer discontinues service like we have been supposing, the 600 or so customers, then would you agree that the facilities used to serve those customers are used and useful still?

MS. HUMMEL: I object. I don't know what that means.

MS. GRADY: As described under the Revised Code.

MS. HUMMEL: I still don't know what that means.

Q. Let me strike that. If a customer

discontinues service, then what happens to the facilities that were used to provide services to those customers? Are they then not being used? Are they vacant? What happens to them? And I would --

A. We are not talking about the voided customer charges customers. We are now talking about the customers that drop from the system in its entirety?

Q. No, I'm talking about the fact that we were talking about a group of customers who would be hit with the avoided customer charge, the 600 or so customers that you were estimating.

A. Well, if that's the group you're asking the question about, those facilities are definitely continuing to be used, or used and useful. They have been used. They will be used in the provision of utility services. They're just not being used this summer.

Q. At a particular point in time.

A. At the particular point in time.

Q. If you have a customer that actually discontinues all service, would the facilities still be considered used and useful to serve that customer, even though they are not being used?

MS. HUMMEL: I object to the use of the legal term out of the context in which it appears in the law.

Q. You can answer in terms of how you answered the prior question. You used the term "used and useful" so I would accept that characterization.

A. If a customer drops from the system, the main still goes by their house. The transmission line serving that main is still in the ground, still being used to provide utility service. It's being used. There's a meter hanging on that that will be put back in inventory and will be used at the next new house that comes along, so those facilities remain used or useful in the provision of utility service.

Q. What about where a customer discontinues service altogether, would the service line and the riser associated with that, would those continue to be used and useful?

MS. HUMMEL: I have a continuing objection to the use of the terminology "used and useful" in the context which is a legal term outside of the context which it is used in the law.

A. Currently Vectren doesn't own the service

lines. We have the service stub or the risers. I don't know the particular accounting approach that's taken when a customer leaves the system. To the extent I think there's a time period involved before there's any recognition of that loss of customer as far as what happens to it accumulating depreciation through the plant in service, I don't know exactly what those are.

But it is possible that that service could be turned back on. At some point in the future that customer could turn it back on if they bought another appliance, so I don't think it happens immediately upon a phone call saying: I'm dropping service today.

Q. Doesn't the company have a provision in its filing where it will -- for new service lines installed that it will then own those service lines? Isn't that part of this proposal in this case?

A. It's part of the distribution replacement program, accelerated main replacement program. To the extent we replace a service, we will own that service.

MS. GRADY: Off the record.

(Recess taken.)

Q. (By Ms. Grady) At page 9, lines 23 through 26, under SRR-A you are seeking to recover two years of accumulated deferrals over a one-year period. Can you tell me what the basis is of choosing the one-year period was and why you did not propose to recover the two years of deferrals over two years?

A. The overlap issue was one item of one-year recovery, would minimize the probability of even a month overlap. The deferral amount was not as large as had originally been contemplated. And so it seemed like the smarter thing to do was to recover in the one-year time frame.

Q. And the deferral amount is approximately $5 million at this point. That's the latest.

A. I don't know the current estimate. I know when we designed the initial rate, it was something over $5 million for the residential class.

Q. On page 9 you describe the Sales Reconciliation Rider A as being approved in case 05-1444. Can you tell me when you say it was approved? Are you talking about approved in concept, or could you define what you mean there?

MS. HUMMEL: Objection. The Commission

order speaks for itself, and the compliance rider tariff has been filed.

A. We filed the rider on July 28. I believe the order came out on July 27 approving our Sales Reconciliation Rider at zero rate, but the rider also includes a description of how deferrals would take place so it was approved by the Commission to be effective based on its order on June 27, 2007.

Q. Is it your understanding that that order or orders coming out of 05-1444 permitted the booking of deferrals; is that correct?

A. I'm not the accountant, but that is my understanding, that the deferrals were authorized by that order.

Q. Did that order or orders in that particular case set the recovery period for collection from customers at a year level, at a year period, if you know?

MS. HUMMEL: Continuing objection. The order speaks for itself. You can ask him his understanding of the order.

Q. So your understanding of the order set a recovery period of deferrals for one year.

A. The order actually provided that Vectren

file in the next rate case the unit rate which would recover the deferrals permitted by the Commission's approval of the SRR. I don't recall discussion about the recovery period in the order.

Q. Is it your understanding that that order you refer to or orders in that case, 05-1444, approve the collection of deferrals from customers?

MS. HUMMEL: Objection. The order speaks for itself and makes it clear that the recovery of these deferrals is approved.

A. The June 27 order did indicate that the company was authorized to defer for later recovery these dollars.

Q. Now, you recently filed, and I mean you being the company, for additional deferral collections associated with SRR-A; is that correct?

A. The company filed to extend the period for deferrals under the SRR that currently exists.

Q. And the deferrals would be those that accrue beginning October 1, 2008 and forward until the rate effective date in the case.

A. I believe that was the time period. I know it was to begin October 1, and I believe it did recommend through the implementation of a replacement

decoupling mechanism or rate design.

Q. Do you know the approximate amount of the deferrals that would then be collected on a monthly basis from October 1, 2008 until the rate effective date? Do you have an approximate estimate?

A. I do not.

Q. Now, the SRR-B would be in effect until SFV is achieved in full; is that correct?

A. That is our proposal, that the SRR-B be an interim decoupling mechanism until the volumetric charges are completely eliminated under a full straight fixed variable rate design.

Q. The SRR-B is applied to residential customers in Schedule 310 and 315, and general sales and general transportation, 320 and 325.

A. That's correct.

Q. Do you know how the SRR-B is allocated, if you know?

A. The SRR-B calculates the deferral amount, the deficiency of actual revenues to base rate revenues on a per rate-class basis. So the result is applied to that rate class prospectively.

Q. You indicate in the Alt Reg Exhibit B, which I believe you say you are responsible for at

33, you believe the SRR-B does not deviate from traditional ratemaking. Can you explain that to me?

A. Can you point to what part of my testimony?

Q. I think you indicate the -- you refer to the alt reg exhibits, and I believe in the beginning of your testimony you say you are responsible for those alt reg exhibits. And I'm looking at page 2: I'm responsible for line 17 and 18, E schedules, as well as portions of the alt reg Exhibits A and B and the Alt Reg C through G. And I guess I was just looking the alt reg exhibits. I looked at Exhibit B at 33 and a statement was made that SRR-B does not deviate from traditional ratemaking. I just wanted you to explain that opinion.

A. The SRR-B is essentially a rate adjustment mechanism, which is currently permitted under the regulations, and it's based on cost of service and the revenues approved in a rate case proceeding, so in that respect it doesn't deviate from, if you will, traditional ratemaking, which is the ratemaking approach contemplated by the statutes. It's my understanding it's contemplated by the statutes and the Administrative Code in Ohio.

Q. You said it's currently permitted under the regulations. Are you talking about -- what regulations are you talking about? Are you talking about portions of the code? Are you talking about the alternative narrative regulations of the code or some other portion?

A. I don't know the exact code, but I understand that traditional ratemaking as provided for in the code is recovery of operating expenses and a return on invested capital or rate base. That's what traditional ratemaking is about in Ohio, is my understanding, and that's exactly what SRR-B is about, recovery of fixed costs, in fact, approved in the traditional rate case.

Q. Mr. Ulrey, you have tied the funding of demand side management to approval of your proposed SRR-B; is that correct?

A. I've observed in my testimony that the SRR-B is necessary, especially in light of our demand-side management programs, which are intended to reduce usage. It would be inappropriate, in fact, it should be a prerequisite that the SRR-B be approved if the DSM funding proposal is approved.

Q. When you say the DSM funding is approved,

you're talking about the increased funding that is incorporated into the rate case at this particular time?

A. Yes. We have had a proposal of an incremental $2.9 million for demand-side management programs.

Q. Yes, over existing demand-side management programs funded by the company.

A. Over the existing low-income weatherization programs in base rates.

Q. Once the SRR-B is no longer required, is it the company's intention that the funding of DSM, the incremental funding of DSM continue?

MS. HUMMEL: I would like to hear that back.

(Record read.)

MS. HUMMEL: Does that assume a straight fixed variable?

MS. GRADY: I think under Mr. Ulrey's approach, yes.

MS. HUMMEL: I'm asking what your question is.

MS. GRADY: Yes. I am assuming if Mr. Ulrey's proposal is approved, SRR-B goes out once

a full straight fixed variable is reached.

MS. HUMMEL: All right. Thank you.

A. I am testifying on the decoupling mechanism. I'm not responsible for the demand-side management programs so I can't answer what will happen once the company is fully decoupled as far as the demand-side programs and funding, et cetera, but I can say that the disincentive that would otherwise be there absent decoupling would be removed.

Q. With the implementation of SFV.

A. Yes.

Q. Would that be a question I should ask Mr. Pettit or Mr. Rose?

A. I would ask Mr. Pettit that question.

Q. On page 10, lines 13 through 16 you talk about the SRR-B being an improvement over the current partial decoupling rider. Do you see that?

A. I'm sorry, which page, Ms. Grady?

Q. On page 10 of your testimony, lines 13 through 16.

A. Yes.

Q. And can you explain to me why you're calling it an improvement and from whose perspective that would be an improvement?

A. As I discussed in response to questions earlier regarding the weather tracking portion of full decoupling, it actually is an improvement for both customers and the company. It simply removes an unnecessary variation in bills to customers and fixed cost recovery by the company, and that's an improvement for both company and customer.

Q. And it functions as an improvement to customers only when the weather is warmer than normal?

A. I would say it's an improvement by virtue of not having to worry about whether it is going to be warmer or colder than normal for the customer. The theory behind ratemaking is that you design rates on weather normalized volumes to remove the weather risk, and to the extent a full decoupling mechanism can make that a reality, it satisfies the objective of the ratemaking theory and provides benefits to company and customer.

Q. Can you tell me what the improvement from the company's perspective is of the removal of the weather risk?

A. Mr. Benkert's testimony covers that a little more than mine. He covers that, but it's

related to stability of revenues and the ability to attract capital improvement or at least favorable impacts on bond ratings resulting in lower borrowing costs potentially which benefits customers in the return component of rate cases.

Q. Now, on page 11, lines 19 and 20, you mention that "if the SRR-B is superseded by a full SFV or some other mechanism." What other mechanism are you referring to there, if you know?

A. There are other tracking mechanisms that provide decoupling. You may have heard of revenue stabilization or return stabilization. Those are mechanisms that not only stabilize the base revenues that a company recovers, but also looks at the operating expense side and the investment side and says: Let's stabilize your returns, and that mechanism is not something that we've proposed in Ohio.

There are a number of utilities that have that kind of mechanism, and Dr. Overcast has a list, a list from last fall, of companies that have decoupling-type mechanisms, some of which include this revenue stabilization, return stabilization, and this is -- actually, that is Applicant's Exhibit No.

HEO-1 also, Schedule 1.

Q. Turning to page 12, lines 19 through 22, you refer there to the current rate design as permitting a subsidy of low-volume customers by high-volume customers. Do you see that?

A. I do.

Q. And you are then changing your rate design to moderate the subsidies of low-volume customers by high-volume customers; is that right?

A. Our proposed increase in the customer charges would have that impact.

Q. Would you agree with me, Mr. Ulrey, that most low-usage customers are low-income customers?

A. The only information I have on low-income customers as it relates to usage is the PIPP data that I referred to previously that shows that the lowest-income customers actually use more than the average customer.

Q. From your perspective, Mr. Ulrey, what's wrong with subsidies in the design of rates?

MS. HUMMEL: I'm going to object because I think I should.

MR. FRIEDEMAN: It presumes there is something wrong.

Q. If we can establish that -- I think what you're saying, you know, you're moving towards a rate design because one of the issues is the subsidy of -- one of things you want to do is ultimately eliminate existing subsidization. I'm assuming you're saying that the existing subsidization is problematic from the company's perspective; is that correct?

A. That's correct.

Q. So I assume you think there is something inherently wrong with the subsidies based upon your testimony; is that correct?

A. There is something wrong with subsidies. It takes a number of forms. I think the best place to review those problems is the testimony of Dr. Overcast, who talks about the need for straight fixed variable rate design and the subsidy that currently exists and why that's a problem in terms of price signals and economic efficiency and meeting the principles of cost-based rates, which most commissions adhere to, et cetera.

Q. Does the company make any more or less money if these subsidies are eliminated? Does it matter?

A. That's a good question. In my estimation

if you consistently provide inaccurate price signals, you're going to have suboptimal results. You're going to perhaps invest in facilities to serve customers that aren't being paid for by those customers. You're going to have in the case of subsidies being made, for industrial customers, potentially industrial customers not coming to your service territory because they're paying rates that are higher because of subsidies being provided to a residential class. That could result in not obtaining the jobs that would come with those businesses.

Just a number of bad things can happen when an inaccurate price signal results from a subsidized rate design that would impact in the long term the company's ability to make the money it otherwise could.

Q. Do you hear from any of your customers that they want you to eliminate the subsidies that are established in rates? Is that something you hear from your customers?

A. Certainly from the large-volume customers, we hear it all the time. We have an intervenor in this case that has made that pretty

clear.

Q. I am trying to whittle it down here, Mr. Ulrey. By whittling down, I'm just shoving it off to another witness. I think Mr. Pettit's area is growing and so is Dr. Overcast's, as we speak.

On page 15, lines 16 and 17 you indicate that: VEDO has, through SRR-B, committed to, among others, the elimination of cross subsidization of fixed cost responsibility within the residential class. Do you see that?

A. Yes.

Q. Can you explain what you mean there and the basis of your statement?

A. That's similar to our previous discussion about the existence of subsidies within the residential class. As long as fixed costs are recovered via volumetric rates, even though the occurrence of those fixed costs are not related to volumes used, and movement to fixed rate variable is -- complete movement to straight fixed variable is the way to eliminate that cross subsidization by having rates for each of the customers within a class that are equal reflecting the equal investment in cost to serve.

Q. Let's go to your supplemental testimony, Mr. Ulrey. On page 4 at lines 23 through 28, you indicate that the level of fixed costs remaining in the volumetric charge under Stage 1 and Stage 2 rates. Do you see that?

A. Yes.

Q. How did you determine these figures? How did you come up with those figures?

A. Well, as I state in the question, we used the Staff Report's revenue distribution proposal and their rate design, and we used VEDO's proposed total revenues. So it was VEDO's application revenue requirement allocated to rate classes, including the residential class, based on staff's revenue distribution and staff's proposed customer charges and volumetric charges.

Using that, we calculated what the volumetric charges would be, and actually it may have come right from the Staff Report. Now that I've said all that, it may have come right from the Staff Report. We computed the volumetric charges, the fixed costs remaining allocated to the volumetric charges.

Q. Would it be your conclusion that the

portion of the level of fixed cost remaining at volumetric charge under Stage 1 and Stage 2 rates under VEDO's approach, based on SR revenue distribution and rate and VEDO's proposed total revenues would be approximately the same as the numbers you list for the staff's approach.

A. I'm not sure I completely capture all the components of your question.

Q. Let me see if I can rephrase it. What you gave on page 4 is based on the Staff Report revenue distribution and rate design and VEDO's proposed revenues. My question goes to, have you looked at the impact on what fixed costs are remaining in the volumetric charge based on your own revenue distribution and your own rate design?

A. We did. I didn't put it in this testimony. It would be higher because we had proposed a higher percentage allocation of fixed costs to the residential class than did the Staff Report.

Q. So there would be a higher figure for the residential class remaining in volumetric charge in Stage 1 and a higher dollar amount remaining in volumetric charges under Stage 2 if you used your

entire approach.

A. Correct.

Q. On page 4, lines 31, through 33 you say: As customers continue to reduce usage in response to rising natural gas prices, as well as other factors. And I'm going to focus on that phrase "as well as other factors." What are you referring to there?

A. Well, rising natural gas prices would be where the customer is dialing back because they just see that high price and then it tells them they need to turn down the temperature in their house to reduce their furnace usage. All other factors would be everything else that customers do to reduce usage in the longer term. It would be swapping out appliances for more efficient gas-using appliances, a high efficiency gas furnace, installing a programmable thermostat that automatically sets back every night when you're asleep and you don't need all the heat. The results of DSM efforts would be all other factors.

Q. On page 4, lines 33 and 34 you indicate that a five percent reduction in sales volume for residential rate classes alone would result in underrecovery of about $1 million. Do you see that?

A. Yes.

Q. Can you tell me how that figure was derived, how you came about the underrecovery of 1 million, how that was calculated?

A. In its simplest form, it's five percent times the $20 million that are recovered in volumetric rights.

Q. Why did you use a five percent reduction there?

A. We were looking at -- it's an example. We were looking at the gas costs for the upcoming winter and seeing what a large increase in gas costs that were coming. We compared that to the last winter when we had a large increase like that, and I believe in Ohio that winter the reduction was on average per customer was 8 or 9 or 10 percent. But since this was an example and we were just trying to make this point there was continued risk of underrecovery related to volumetric charges, we just picked the five percent.

Q. And when you referred to residential rate classes, that would be 310 and 315 there?

A. Yes.

Q. And by underrecovery do you mean the

company wouldn't collect a million dollars in residential revenues that's built into its rate request, is that what you mean?

A. If these were rates approved, we would underrecover the fixed cost used to design those rates by a million dollars.

Q. Now, on page 5 you speak about the compounding of underrecovery as customers continue to reduce the usage volumes. Do you see that reference?

A. Yes.

Q. And has a company developed forecasts or studies of expected customer usage?

A. We prepare a five-year forecast at the company that would have five forward years of usage and would presumably reflect our estimation of usage into the future. I'm not familiar with what those may show.

Q. Who would be familiar? Are there any witnesses that Vectren has in this case that would be familiar with the five-year forecast?

A. Yes. Susan Hardwick would be familiar with it and Jerry Benkert would be familiar with it. It may be that Doug Pettit is involved in to the extent there is a projection of those usage as of

those five months.

Q. Five years?

A. The five-year forecast period.

Q. Do you know when the latest five-year forecast was prepared by the company?

A. It's done annually in the fall of each year, so it would have been last fall.

Q. Do you know generally what the five-year forecast shows in terms of expected reduction in sales volumes for residential rate classes?

A. I do not know.

Q. Do you know if there is a reduction in sales volumes generally associated with that five-year forecast?

A. I don't know specifically, but I would be fairly sure that it does show that because, as I've said, I've been in this business a long time and every year the usage per customer goes down.

Q. And last question on this area, would that five-year forecast reflect normalized or nonweather normalized usage, if you know?

A. It would be a projection using weather normalized usages.

Q. Were the figures presented as losses on

lines 4 through 6 -- and this is again on the losses listed on page 5 -- were they calculated as the prior reduction in sales volume on page 4? Is it the same calculation that you used?

A. Yes, but additive.

Q. Because it's for two years or three years; is that correct?

A. Correct.

Q. You reference dial-back on lines 22 and 23, and I think you mentioned it in your answer several answers ago. Does dial-back occur during all kinds of weather, Mr. Ulrey, or does it occur only when the weather gets to a certain coldness?

A. The dial down that I'm referring to is associated with I think more with the price signal. The more we communicate to customers that gas prices are going to be high this upcoming winter, the more they are aware and make their own determinations, just like many of us probably did, I'm not going to use any more natural gas than I have to. I'll dial down my thermostat to a lower temperature so it uses less. And we want them to do that. As long as we're decoupled, that's exactly what we want them to do.

Q. You are seeking approval in this case of

rate 310 and 320, Stage 2.

A. Yes.

Q. Do you have any responsibilities, Mr. Ulrey, for the proposed notice in newspaper publications related to the application?

A. I wasn't involved in it, but I guess ultimately I am responsible for those type of regulatory notices.

Q. And the notice for newspaper publication would have been Schedule S-3 which you sponsor; is that correct?

A. I did not sponsor S-3.

Q. Is there a sponsor for S-3?

A. I do not know.

MS. HUMMEL: I don't believe a sponsor is required for S-3. The Commission has already considered and issued a ruling on it as far as adequacy of that schedule.

Q. Mr. Ulrey, you said you ultimately are responsible for the notice. Do you know whether or not in the notice of newspaper publications you listed the Stage 2 rate 310 proposal as well as rate the 320 Stage 2 proposal?

A. I believe after review of those, we

determined that we had not included those Stage 2 rates.

MS. GRADY: Off the record.

(Discussion off record.)

Q. (By Ms. Grady) Are you generally aware of jurisdictions that have adopted a full straight fixed variable, Mr. Ulrey?

A. I know of a couple utilities that have fixed variable rate design, yes.

Q. A full fixed variable as you would define it under your proposal?

A. Yes. I know of Atlanta Gas Light. Again I'll go to Dr. Overcast, his final exhibit, Schedule 3 of his Applicant's Exhibit HEO-1 lists the utilities with straight fixed variable. Northern States Power in North Dakota had a full straight fixed variable. I mentioned Atlanta Gas Light already, and then the two Missouri utilities. I believe those are all full straight fixed variable with a single flat rate year round.

Q. Those would be the extent to which you are aware of other companies that have adopted -- companies where the commission has approved or adopted a full straight fixed variable?

A. Those are the ones we were aware of when we filed this testimony last fall.

Q. Okay.

A. And I know I have seen fixed variable headlines in the trade press since then, but I could not tell you which utilities may have them and whether or not they are full. It's something we can do.

Q. I appreciate that. Now, the three utilities that you mentioned, Atlanta Gas Light, North States Power and, perhaps, the two in Missouri, are you aware of whether or not the public service commission who approved the straight fixed variable made any adjustments reducing the return on equity associated with adopting that approach?

A. I don't believe they did in Northern States Power or the Atlanta Gas Light. I don't know about the Missouri utilities.

Q. Would you agree with me, Mr. Ulrey, that a straight fixed variable will lessen the customer's ability to control the amount of his or her bill?

A. No. I believe just the opposite, it does help them control the amount of their bill better than volumetric rates would.

Q. Can you explain to me how that works? If the customer is now receiving a bill with higher fixed charge and it's less variable because there's less volumetric charges, how does that enhance the customer's ability to control their bill?

A. I took the word "control" to mean have stable bills, and straight fixed variable is the epitome of stable bills for the distribution service.

Q. If I said straight fixed variable, would you agree with me that straight fixed variable would lessen the customer's ability to reduce their bills? Would you agree with that statement?

A. Not in the situation where there's full decoupling. I mean, if you assume, which we want to, that everybody reduces their usage over time, if the decoupling mechanism simply recovers from all customers, that reduction in fixed cost recovery the customers end up paying it anyway. They may have avoided it in year one, and they may have actually made an economic decision based on thinking they avoided it in year two, assuming everybody saves -- reduces usage proportionately, they have to pay it anyway. So even in that circumstance I would say that it doesn't help them control the bill.

Q. Would you agree with me that customer acceptance is an important criteria for rate structure?

A. I would agree it would be nice if customers understood how they're billed and accepted it. I would say that most residential customers don't understand their bills because of the volumetric component, and to the extent we could communicate to them that for distribution service you're paying an average of $20 a month, that would at least help them understand it better, and if better understanding leads to more acceptance, than I think straight fixed variable is probably the rate design that would be more acceptable to customers.

Q. Do you know if the Commission looks at customer acceptance as a criteria when it designs its rates?

A. I am not aware of that phrase coming up or being used in the past by the Commission. I'm just not aware.

Q. Do you know if the customers of Vectren are willing to accept the straight fixed variable in the move to straight fixed variable?

A. I don't have any survey data that

addresses that question. I do know that customers of ours most likely have many, many, many fixed price services that they currently pay and understand, like their phone bills are so many dollars per month, their cable bills are so many dollars per month, their Internet is so many dollars per month.

Those, too, are network businesses or the business that say the best way to recover this is on a customer basis with a monthly charge as opposed to volumetric. We don't care how much you watch or use the Internet, you know, within bounds.

So I would say that the evidence is out there pretty strongly that most customers know and accept, begrudgingly or otherwise, fixed charges as an appropriate way to recover costs or pay costs for the types of services they are provided, and it goes on and on. Storage units are a fixed charge per month is pretty well accepted.

MS. GRADY: I believe that's all the questions I have. Thank you so much.

THE WITNESS: You're welcome. Thank you.

MS. GRADY: To close the loop, Vern, were there any questions you wanted to ask Mr. Ulrey while you have the chance?

MR. MARGARD: No, but thank you for the opportunity.

(The deposition concluded at 4:10 p.m.)

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State of Ohio :
: SS:
County of _____ :

I, Jerrold L. Ulrey, do hereby certify that I have read the foregoing transcript of my deposition given on Wednesday, August 6, 2008; that together with the correction page attached hereto noting changes in form or substance, if any, it is true and correct.

_____
Jerrold L. Ulrey

I do hereby certify that the foregoing transcript of the deposition of Jerrold L. Ulrey was submitted to the witness for reading and signing; that after he had stated to the undersigned Notary Public that he had read and examined his deposition, he signed the same in my presence on the _____ day of _____, 2008.

_____
Notary Public

My commission expires _____, _____.

- - -

CERTIFICATE

State of Ohio :
: SS:
County of Franklin :

I, Rosemary F. Anderson, Notary Public in and for the State of Ohio, duly commissioned and qualified, certify that the within named Jerrold L. Ulrey was by me duly sworn to testify to the whole truth in the cause aforesaid; that the testimony was taken down by me in stenotypy in the presence of said witness, afterwards transcribed upon a computer; that the foregoing is a true and correct transcript of the testimony given by said witness taken at the time and place in the foregoing caption specified and completed without adjournment.

I certify that I am not a relative, employee, or attorney of any of the parties hereto, or of any attorney or counsel employed by the parties, or financially interested in the action.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my seal of office at Columbus, Ohio, on this 12th day of August, 2008.

Rosemary Anderson RFA

Rosemary F. Anderson,
Professional Reporter, and
Notary Public in and for the
State of Ohio.

My commission expires April 5, 2009.

(RFA-8181)

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